

COMMISSIONER OF INTERNAL REVENUE, PETITIONERS, VS. THE HON. COURT OF APPEALS, THE COURT OF TAX APPEALS, GCL RETIREMENT PLAN, REPRESENTED BY ITS TRUSTEE-DIRECTOR, RESPONDENTS.

G.R. No. 95022. March 23, 1992

Ponente: MELENCIO-HERRERA, J.

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MELENCIO-HERRERA, J.:

This case is said to be precedent setting. While the amount involved is insignificant, the Solicitor General avers that there are about 85 claims of the same nature pending in the Court of Tax Appeals and Bureau of Internal Revenue totalling approximately P120M.

Petitioner, the Commissioner of Internal Revenue, seeks a reversal of the Decision of respondent Court of Appeals, dated August 27, 1990, in CA-G.R. SP No. 20426, entitled "Commissioner of Internal Revenue vs. GCL Retirement Plan, represented by its Trustee-Director and the Court of Tax Appeals," which affirmed the Decision of the latter Court, dated 15 December 1986, in Case No. 3888, ordering a refund, in the sum of P11,302.19, to the GCL Retirement Plan representing the withholding tax on income from money market placements and purchase of treasury bills, imposed pursuant to Presidential Decree No. 1959.

There is no dispute with respect to the facts. Private Respondent, GCL Retirement Plan (GCL, for brevity) is an employees' trust maintained by the employer, GCL Inc., to provide retirement, pension, disability and death benefits to its employees. The Plan as submitted was approved and qualified as exempt from income tax by Petitioner Commissioner of Internal Revenue in accordance with Rep. Act No. 4917.[1]

In 1984, Respondent GCL made investments and earned therefrom interest income from which was withheld the fifteen per centum (15%) final withholding tax imposed by Pres. Decree No. 1959,[2] which took effect on 15 October 1984, to wit:

Date

Kind of Investment

Principal

Income Earned

15% Tax

ACIC

12/05/84

10/22/84

11/19/84

11/23/84

12/05/84

COMBANK

Market Placement

-

-

-

-

Treasury Bills

P236,515.32

234,632.75

225,886.51

344,448.64

324,633.81

P 8,751.96

9,815.89

10,629.22

17,313.33

15,077.44

P 1,312.66

1,472.38

1,594.38

2,597.00

2,261.52

2,064.15

P11,302.19

On 15 January 1985, Respondent GCL filed with Petitioner a claim for refund in the amounts of P1,312.66 withheld by Anscor Capital and Investment Corp., and P2,064.15 by Commercial Bank of Manila. On 12 February 1985, it filed a second claim for refund of the amount of P7,925.00 withheld by Anscor, stating in both letters that it disagreed with the collection of the 15% final withholding tax from the interest income as it is an entity fully exempt from income tax as provided under Rep. Act No. 4917 in relation to Section 56 (b)[3] of the Tax Code.

The refund requested having been denied, Respondent GCL elevated the matter to respondent Court of Tax Appeals (CTA). The latter ruled in favor of GCL, holding that employees' trusts are exempt from the 15% final withholding tax on interest income and ordering a refund of the tax withheld. Upon appeal, originally to this Court, but referred to respondent Court of Appeals, the latter upheld the CTA Decision. Before us now, Petitioner assails that disposition.

It appears that under Rep. Act No. 1983, which took effect on 22 June 1957, amending Sec. 56(b) of the National Internal Revenue Code (Tax Code, for brevity), employees' trusts were exempt from income tax. That law provided:

"SEC. 56. Imposition of tax. - (a) Application of tax. - The taxes imposed by this Title upon individuals shall apply to the income of estates or of any kind of property held in trust, including -

x x x x x

(b) Exception. - The tax imposed by this Title shall not apply to employees' trust which forms part of a pension, stock bonus or profit-sharing plan of an employer for the benefit of some or all of his employees (1) if contributions are made to the trust by such employer, or employees, or both, for the purpose of distributing to such employees the earnings and principal of the fund accumulated by the trust in accordance with such plan, x x x "

On 3 June 1977, Pres. Decree No. 1156 provided, for the first time, for the withholding from the interest on bank deposits at the source of a tax of fifteen per cent (15%) of said interest. However, it also allowed a specific exemption in its Section 53, as follows:

"SEC. 53. Withholding of tax at source. -

x x x x x

"(c) Withholding tax on interest on bank deposits. - (1) Rate of withholding tax. - Every bank or banking institution shall deduct and withhold from the interest on bank deposits (except interest paid or credited to non-resident alien individuals and foreign corporations), a tax equal to fifteen per cent of the said interest: Provided, however, That no withholding of tax shall be made if the aggregate amount of the interest on all deposit accounts maintained by a depositor alone or together with another in any one bank at any time during the taxable period does not exceed three hundred fifty pesos a year or eighty-seven pesos and fifty centavos per quarter. For this purpose, interest on a deposit account maintained by two persons shall be deemed to be equally owned by them.

"(2) Treatment of bank deposit interest. - The interest income shall be included in the gross income in computing the depositor's income tax liability in according with existing law.

"(3) Depositors enjoying tax exemption privileges or preferential tax treatment. - In all cases where the depositor is tax-exempt or is enjoying preferential income tax treatment under existing laws, the withholding tax imposed in this paragraph shall be refunded or credited as the case may be upon submission to the Commissioner of Internal Revenue of proof that the said depositor is a tax-exempt entity or enjoys a preferential income tax treatment.

x x x x x "

This exemption and preferential tax treatment were carried over in Pres. Decree No. 1739, effective on 17 September 1980, which law also subjected interest from bank deposits and yield from deposit substitutes to a final tax of twenty per cent (20%). The pertinent provisions read:

"SEC. 2. Section 21 of the same Code is hereby amended by adding a new paragraph to read as follows:

SEC. 21. Rates of tax on citizens or residents. ?

x x x x x x x x

Interest from Philippine Currency bank deposits and yield from deposit substitutes whether received by citizens of the Philippines or by resident alien individuals, shall be subject to the final tax as follows: (a) 15% of the interest on savings deposits, and (b) 20% of the interest on time deposits and yield from deposit substitutes, which shall be collected and paid as provided in Sections 53 and 54 of this Code. Provided, That no tax shall be imposed if the aggregate amount of the interest on all Philippine Currency deposit accounts maintained by a depositor alone or together with another in any one bank at any time during the taxable period does not exceed Eight Hundred Pesos (P800.00) a year or Two Hundred Pesos (P200.00) per quarter, Provided, further, That if the recipient of such interest is exempt from income taxation, no tax shall be imposed and that, if the recipient is enjoying preferential income tax treatment, then the preferential tax rates so provided shall be imposed (Emphasis supplied).

"SEC. 3. Section 24 of the same Code is hereby amended by adding a new subsection (cc) between subsections (c) and (d) to read as follows:

(cc) Rates of tax on interest from deposits and yield from deposit substitutes. - Interest on Philippine Currency bank deposits and yield from deposit substitutes received by domestic or resident foreign corporations shall be subject to a final tax on the total amount thereof as follows: (a) 15% of the interest on savings deposits; and (b) 20% of the interest on time deposits and yield from deposit substitutes which shall be collected and paid as provided in Sections 53 and 54 of this Code. Provided, That if the recipient of such interest is exempt from income taxation, no tax shall be imposed and that, if the recipient is enjoying preferential income tax treatment, then the preferential tax rates so provided shall be imposed" (Underscoring ours).

"SEC. 9. Section 53(e) of the same Code is hereby amended to read as follows:

SEC. 53(e) Withholding of final tax on interest on bank deposits and yield from deposit substitutes. -

(1) Withholding of final tax.? Every bank or non-bank financial intermediary shall deduct and withhold from the interest on bank deposits or yield from deposit substitutes a final tax equal to fifteen (15%) per cent of the interest on savings deposits and twenty (20%) per cent of the interest on time deposits or yield from deposit substitutes: Provided, however, That no withholding tax shall be made if the aggregate amount of the interest on all deposit accounts maintained by a depositor alone or together with another in any one bank at any time during the taxable period does not exceed Eight Hundred Pesos a year or Two Hundred Pesos per quarter. For this purpose, interest on a deposit account maintained by two persons shall be deemed to be equally owned by them.

(2) Depositors or placers/investors enjoying tax exemption privileges or preferential tax treatment. - In all cases where the depositor or placer/investor is tax-exempt or is enjoying preferential income tax treatment under existing laws, the withholding tax imposed in this paragraph shall be refunded or credited as the case may be upon submission to the Commissioner of Internal Revenue of proof that the said depositor, placer/investor is a tax exempt entity or enjoys a preferential income tax treatment."

Subsequently, however, on 15 October 1984, Pres. Decree No. 1959 was issued, amending the aforestated

provisions to read:

"SEC. 2. Section 21(d) of this Code, as amended, is hereby further amended to read as follows:

(d) On interest from bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements. ? Interest from Philippine Currency Bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements whether received by citizens of the Philippines or by resident alien individuals, shall be subject to a 15% final tax to be collected and paid as provided in Sections 53 and 54 of this Code.

"SEC. 3. Section 24(cc) of this Code, as amended, is hereby further amended to read as follows:

(cc) Rates of tax on interest from deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements. - Interest on Philippine Currency Bank deposits and yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements received by domestic or resident foreign corporations shall be subject to a 15% final tax to be collected and paid as provided in Section 53 and 54 of this Code.

"SEC. 4. Section 53(d) (1) of this code is hereby amended to read as follows:

Sec. 53(d) (1). Withholding of Final Tax. - Every bank or non-bank financial intermediary or commercial, industrial, finance companies, and other non-financial companies authorized by the Securities and Exchange Commission to issue deposit substitutes shall deduct and withhold from the interest on bank deposits or yield or any other monetary benefit from deposit substitutes a final tax equal to fifteen per centum (15%) of the interest on deposits or yield or any other monetary benefit from deposit substitutes and from trust fund and similar arrangements."

It is to be noted that the exemption from withholding tax on interest on bank deposits previously extended by Pres. Decree No. 1739 if the recipient (individual or corporation) of the interest income is exempt from income taxation, and the imposition of the preferential tax rates of the recipient of the income is enjoying preferential income tax treatment, were both abolished by Pres. Decree No. 195 1959. Petitioner thus submits that the deletion of the exempting and preferential tax treatment provisions under the old law is a clear manifestation that the single 15% now 20%) rate is imposable on all interest incomes from deposits, deposit substitutes, trust funds and similar arrangements, regardless of the tax status or character of the recipients thereof. In short, petitioner's position is that from 15 October 1984 when Pres. Decree No, 1959 was promulgated, employees' trusts ceased to be exempt and thereafter became subject to the final withholding tax.

Upon the other hand, GCL contends that the tax exempt status of employees' trusts applies to all kinds of taxes, including the final withholding tax on interest income. That exemption, according to GCL, is derived from Section 56(b) and not from Section 21(d) or 24(cc) of the Tax Code, as argued by Petitioner.

The sole issue for determination is whether or not the GCL Plan is exempt from the final withholding tax on interest income from money placements and purchase of treasury bills required by Pres. Decree No. 1959.

We uphold the exemption.

To begin with, it is significant to note that the GCL Plan was qualified as exempt from income tax by the Commissioner of Internal Revenue in accordance with Rep. Act No. 4917 approved on 17 June 1967. This law specifically provided:

SECTION 1. Any provision of law to the contrary notwithstanding, the retirement benefits received by officials and employees of private firms, whether individual or corporate, in accordance with a reasonable

private benefit plan maintained by the employer shall be exempt from all taxes and shall not be liable to attachment, levy or seizure by or under any legal or equitable process whatsoever except to pay a debt of the official or employee concerned to the private benefit plan or that arising from liability imposed in a criminal action;" x x x (emphasis ours).

In so far as employees' trusts are concerned, the foregoing provision should be taken in relation to then Section 56(b) (now 53[b]) of the Tax Code, as amended by Rep. Act No. 1983, *supra*, which took effect on 22 June 1957. This provision specifically exempted employees' trusts from income tax and is repeated hereunder for emphasis:

"Sec. 56. Imposition of Tax. - (a) Application of tax. - The taxes imposed by this Title upon individuals shall apply to the income of estates or of any kind of property held in trust,

x x x x x x x x

"(b) Exception. - The tax imposed by this Title shall not apply to employee's trust which forms part of a pension, stock bonus, or profit-sharing plan of an employer for the benefit of some or all of his employees x x x"

The tax-exemption privilege of employees' trusts, as distinguished from any other kind of property held in trust, springs from the foregoing provision. It is unambiguous. Manifest therefrom is that the tax law has singled out employees' trusts for tax exemption.

And rightly so, by virtue of the *raison d'être* behind the creation of employees' trusts. Employees' trusts or benefit plans normally provide economic assistance to employees upon the occurrence of certain contingencies, particularly, old age retirement, death, sickness, or disability. It provides security against certain hazards to which members of the Plan may be exposed. It is an Independent and additional source of protection for the working group. What is more, it is established for their exclusive benefit and for no other purpose.

The tax advantage in Rep. Act No. 1983, Section 56(b), was conceived in order to encourage the formation and establishment of such private Plans for the benefit of laborers and employees outside of the Social Security Act. Enlightening is a portion of the explanatory note to H.B. No. 6503, now R. A. 1983, reading:

"Considering that under Section 17 of the Social Security Act, all contributions collected and payments of sickness, unemployment, retirement, disability and death benefits made thereunder together with the income of the pension trust are exempt from any tax, assessment, fee, or charge, it is proposed that a similar system providing for retirement, etc. benefits for employees outside the Social Security Act be exempted from income taxes." (Congressional Record, House of Representatives, Vol. IV, Part. 2, No. 57, p. 1859, May 3, 1957; cited in *Commissioner of Internal Revenue v. Visayan Electric Co., et al.*, G. R. No. L-22611, 27 May 1968, 23 SCRA 715); underscoring supplied.

It is evident that tax-exemption is likewise to be enjoyed by the income of the pension trust. Otherwise, taxation of those earnings would result in a diminution of accumulated income and reduce whatever the trust beneficiaries would receive out of the trust fund. This would run afoul of the very intendment of the law.

The deletion in Pres. Decree No. 1959 of the provisos regarding tax exemption and preferential tax rates under the old law, therefore, can not be deemed to extend to employees' trusts. Said Decree, being a general law, can not repeal by implication a specific provision, Section 56(b) (now 53 [b]) in relation to Rep. Act No. 4917 granting exemption from income tax to employees' trusts. Rep. Act 1983, which excepted employees' trusts in its Section 56(b) was effective on 22 June 1957 while Rep. Act No. 4917 was enacted on 17 June 1967, long before the issuance of Pres. Decree No. 1959 on 15 October 1984. A subsequent statute, general in character as to its terms and application, is not to be construed as repealing a special or specific enactment, unless the legislative purpose to do so is manifested. This is so even if the provisions of the latter are sufficiently comprehensive to include what

was set forth in the special act (Villegas v. Subido, G.R. No. L-31711, 30 September 1971, 41 SCRA 190).

Notably, too, all the tax provisions herein treated of come under Title II of the Tax Code on "Income Tax." Section 21(d), as amended by Rep. Act No. 1959, refers to the final tax on individuals and falls under Chapter II; Section 24(cc) to the final tax on corporations under Chapter III; Section 53 on withholding of final tax to Returns and Payment of Tax under Chapter VI; and Section 56(b) to tax on Estates and Trusts covered by Chapter VII. Section 56(b), taken in conjunction with Section 56(a), supra, explicitly excepts employees' trusts from taxes imposed by this Title." Since the final tax and the withholding thereof are embraced within the title on "Income Tax." it follows that said trust must be deemed exempt therefrom. Otherwise, the exception becomes meaningless.

There can be no denying either that the final withholding tax is collected from income in respect of which employees' trusts are declared exempt (Sec. 56[b], now 53[b], Tax Code). The application of the withholdings system to interest on bank deposits or yield from deposit substitutes is essentially to maximize and expedite the collection of income taxes by requiring its payment at the source. If an employees' trust like the GCL enjoys a tax-exempt status from income, we see no logic in withholding a certain percentage of that income which it is not supposed to pay in the first place.

Petitioner also relies on Revenue Memorandum Circular 31-84, dated 30 October 1984, and Bureau of Internal Revenue Ruling No. 027-e-000-00-005-85, dated 14 January 1985, as authorities for the argument that Pres. Decree No. 1959 withdrew the exemption of employees' trusts from the withholding of the final tax on interest income. Said Circular and Ruling pronounced that the deletion of the exempting and preferential tax treatment provisions by Pres. Decree No. 1959 is a clear manifestation that the single 15% tax rate is imposable on all interest income regardless of the tax status or character of the recipient thereof. But since we herein rule that Pres. Decree No. 1959 did not have the effect of revoking the tax exemption enjoyed by employees' trusts, reliance on those authorities is now misplaced.

WHEREFORE, the Writ of Certiorari prayed for is DENIED. The judgment of respondent Court of Appeals, affirming that of the Court of Tax Appeals is UPHELD. No costs.

SO ORDERED.

Narvasa, C.J., (Chairman), Gutierrez Jr., Cruz, Paras, Feliciano, Padilla, Bidin, Griño-Aquino, Medialdea, Regalado, Davide, Jr., Romero, and Nocon, JJ., concur.

[1] "An Act Providing that Retirement Benefits of Employees of Private Firms shall not be subject to Attachment, Levy, Execution, or any Tax whatsoever," promulgated June 17, 1967.

[2] Entitled "Amending Certain Sections of the National Internal Revenue Code, as amended."

[3] Now Section 53 (b).

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